

# BUSINESS MODELS



*Creating, Delivering and  
Capturing Value*



VENTURE DESIGN  
TOOLKIT

IDEO



*Helps you answer:*

How will you create value for people? / How will you deliver a  
valuable experience? / How will you make money (capture value)?  
/ What are your revenues? / What are your costs? / What is your  
profit? / What key activities and systems do you need in place?



*Business models are **systems**.*

*They are the mechanisms and  
relationships designed to **create,  
deliver and capture value**.*



# WHAT IS A BUSINESS MODEL?

*It is how your venture...*



## CREATES VALUE

WHAT DO YOU MAKE THAT PEOPLE WANT?

This is about your product or service (and is closely related to your promise and capabilities).



## DELIVERS VALUE

HOW WILL YOU GET IT TO YOUR CUSTOMERS?

This is about distribution channels and touchpoints (and closely related to your experience).



## CAPTURES VALUE

HOW WILL YOU MAKE MONEY?

This is about revenue, costs and profit (and closely related to your pricing strategy and cost structure).



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## CAPTURES VALUE

HOW WILL YOU MAKE MONEY?

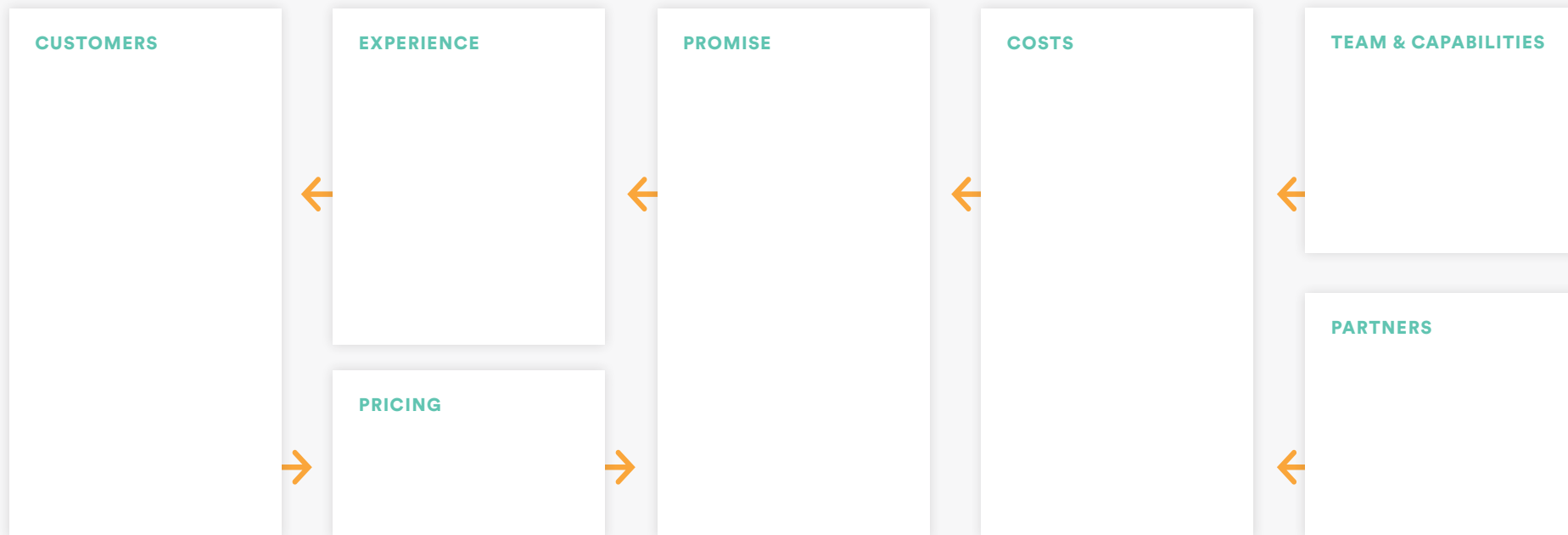
This is about revenue, costs and profit (and is closely related to your pricing strategy and cost structure).

*All these are supported by the **systems** that make your venture work.*



# VENTURE CANVAS:

*A tool for mapping how ventures create, deliver and capture value:*



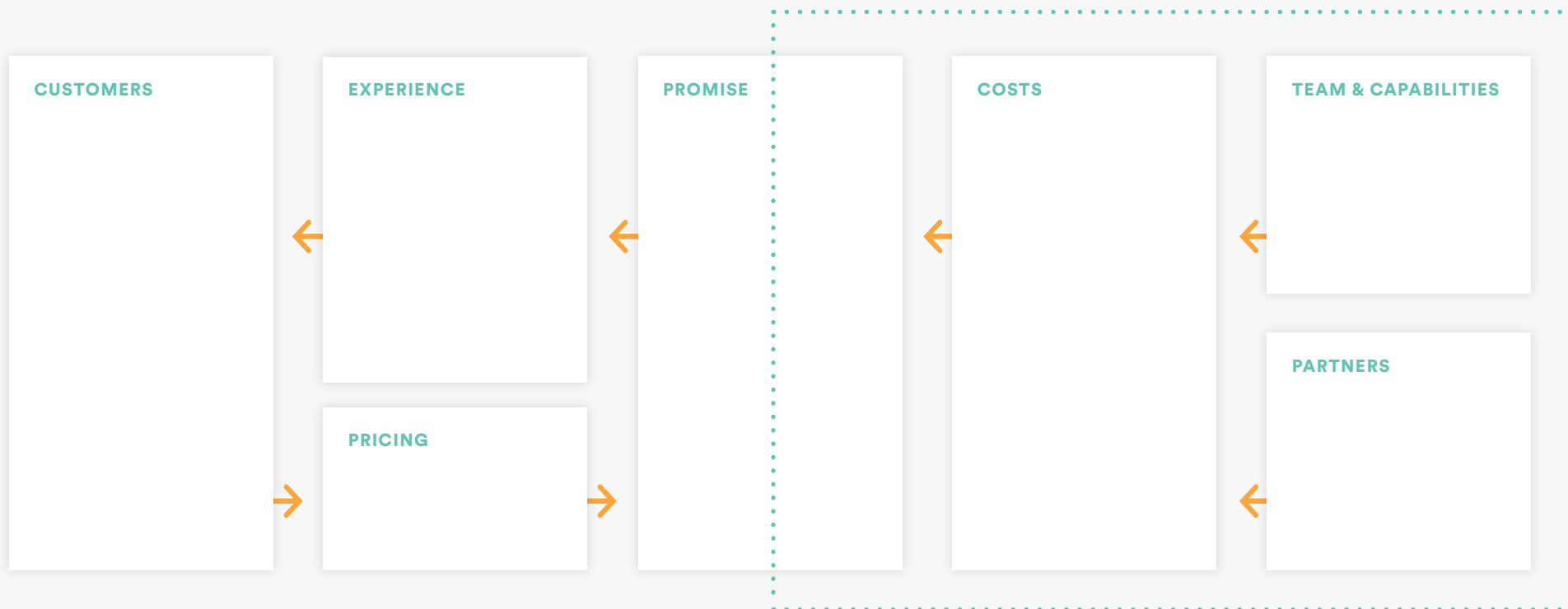
This tool is tailored to early-stage ventures focused on *designing the right experience for the right customers* (often called “product-market fit”). It begins with people: your customers.

*Inspired by / modified from Osterwalder's Business Model Canvas.*



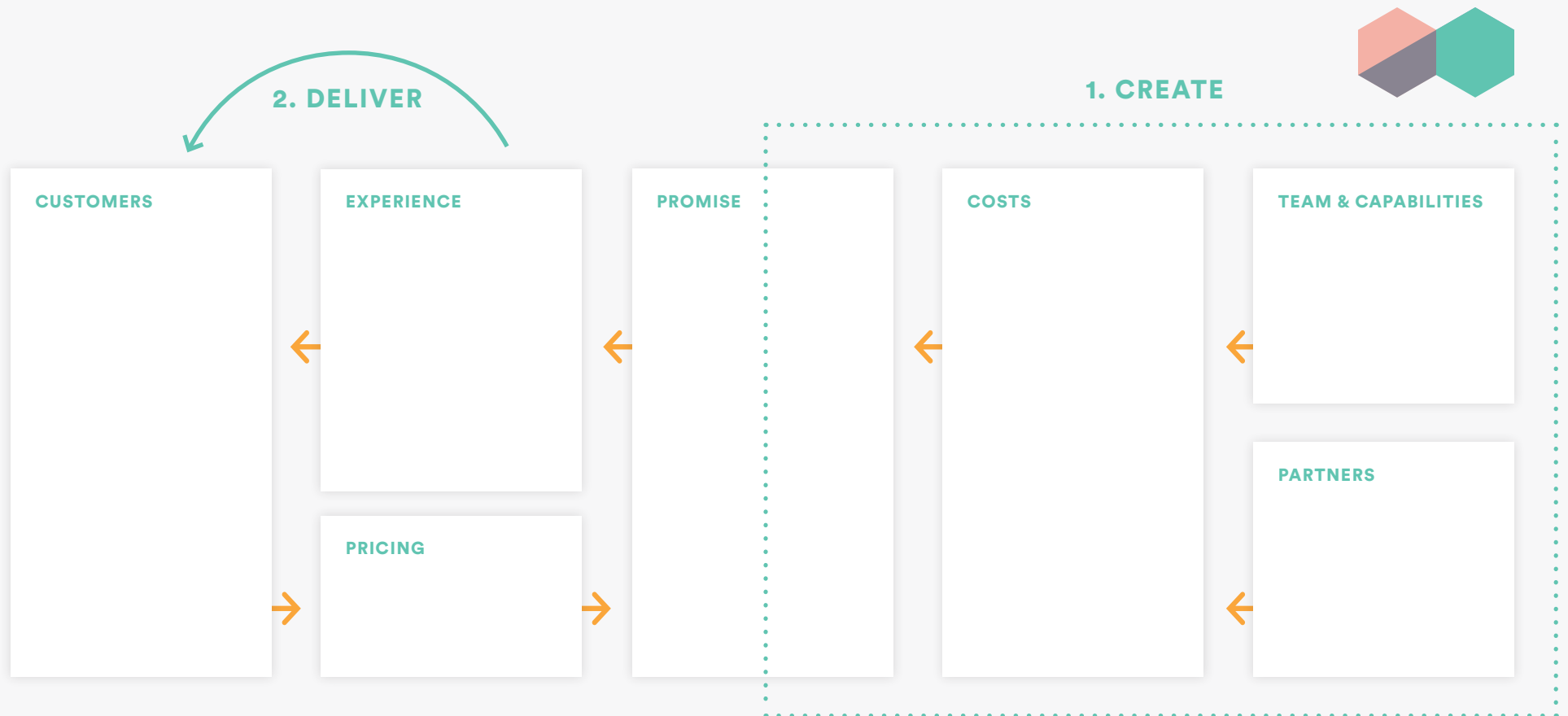


## 1. CREATE



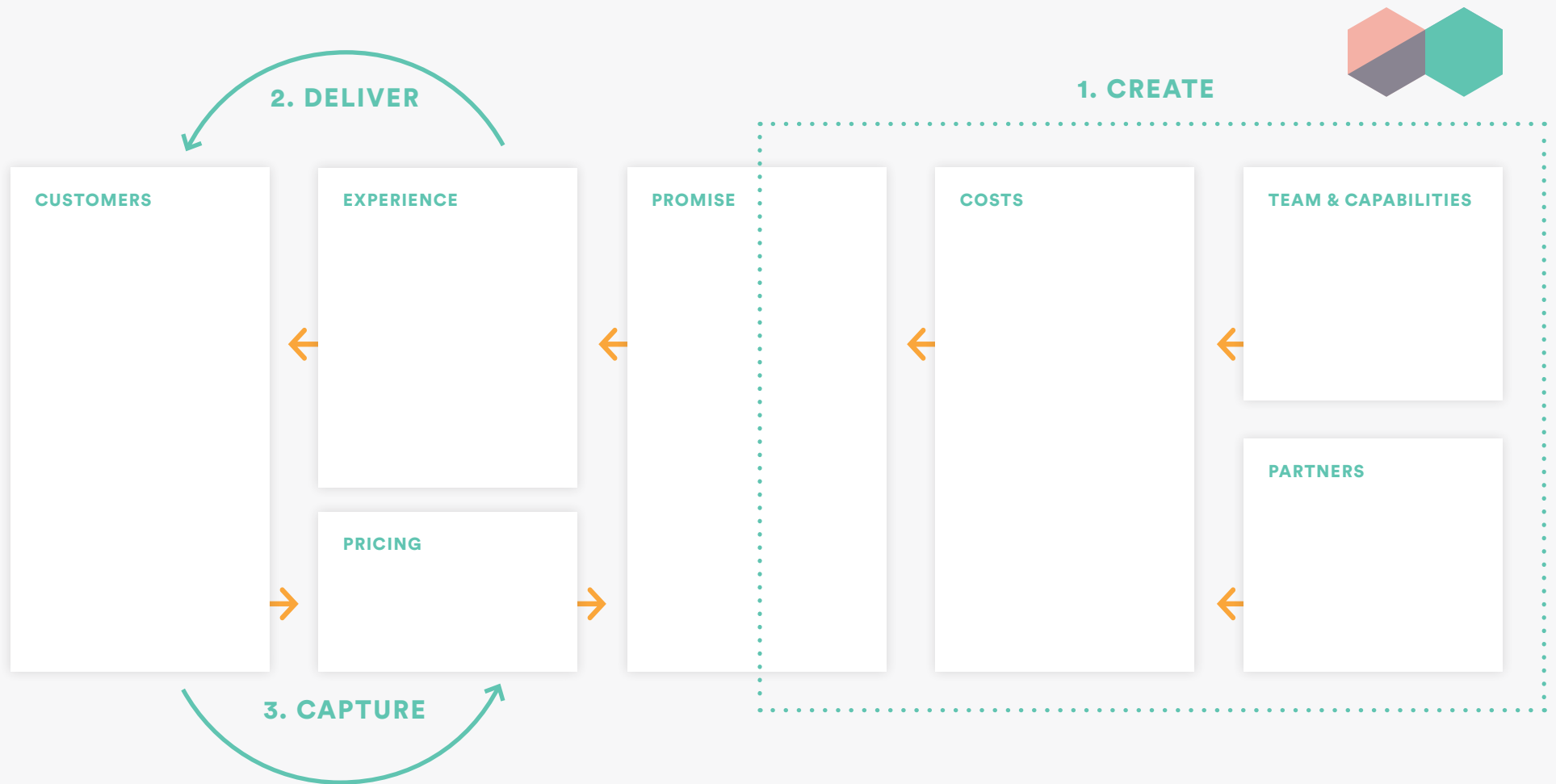
*The canvas shows the flow of how  
your venture can:*

### 1. CREATE VALUE



***The canvas shows the flow of how  
your venture can:***

**1. CREATE VALUE   2. DELIVER VALUE**



***The canvas shows the flow of how your venture can:***

**1. CREATE VALUE   2. DELIVER VALUE   3. CAPTURE VALUE**

You can see how value moves from the business to the customer or end user, and then back again.



# EXAMPLE: PILLPACK

## CUSTOMERS

- + Folks on 10+ meds or steady combo of scheduled meds
- + Value convenience, simplicity
- + Tech-comfortable
- + Caregivers=big influencers!

## EXPERIENCE

- + Recognizable / iconic physical experience: packets, dispenser, other meds arrive every 2wks
- + Straightforward, delightful communication w/pharmacist team
- + Digital dashboard shows big picture & detail of all meds
- + I Feel unburdened, confident & in control, supported

## PRICING

Co-pays billed every 4 wks; reimbursements from insurance cos

## PROMISE

"My Medication Simplified to fit my life"

- Rational:
- + Manage & simplify process of taking & storing meds
  - + Take meds at right times
  - + delivered on time, convenient
  - + personal service

- Emotional:
- + Peace of mind, confidence
  - + Less burdened + supported by pharmacy team

## COSTS

- + Meds
- + Shipping/packaging
- + Advertising & PR!
- + Salaries
- + Rent (pharm & office)
- + Equipment (computers, robots)

## TEAM & CAPABILITIES

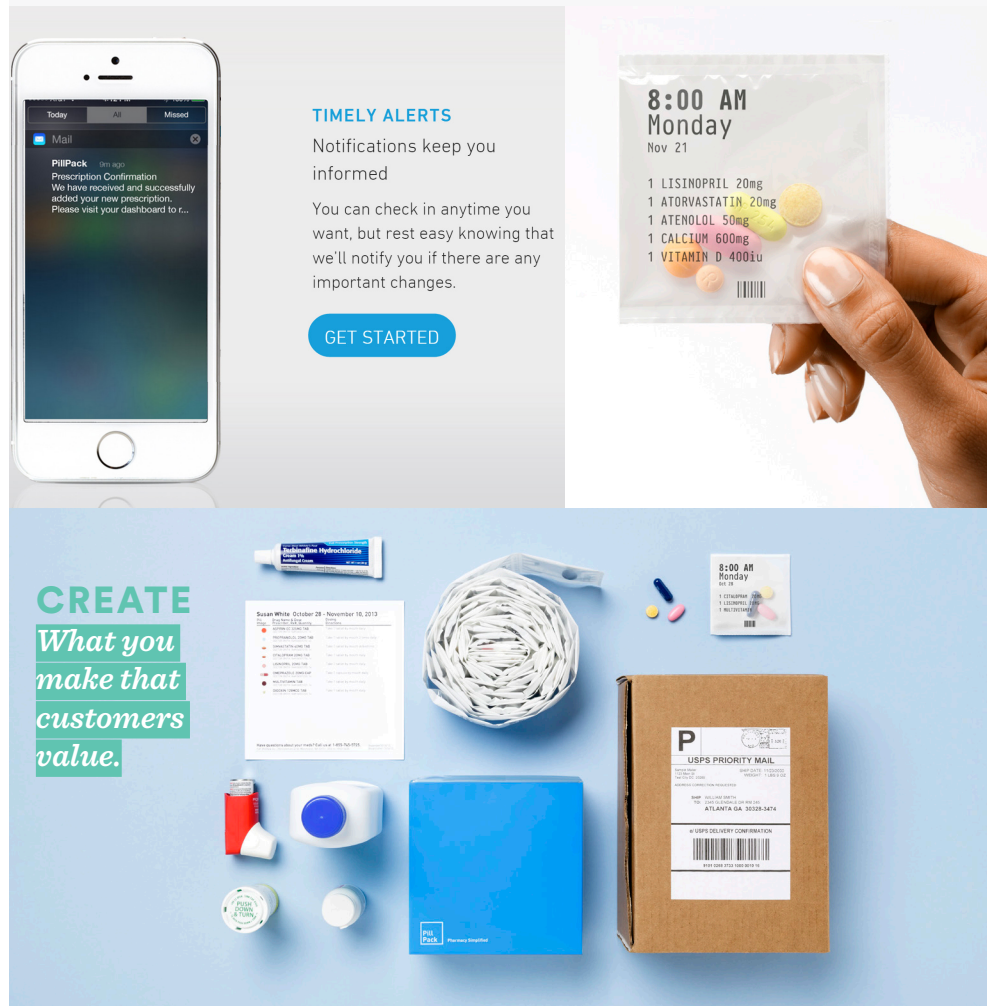
- + Designers, Developers: build brand, customer experience (Elliot, Matt, Jordan)
- + PharmDs: service, knowledge, quality control (TJ, Emily)
- + Marketing: Acquisition (Jacqui)
- + Pharmacy operations (Chris)

## PARTNERS

- + Med suppliers
- + Packaging
- + Manufacturers (dispenser)

## EXAMPLE: PILLPACK

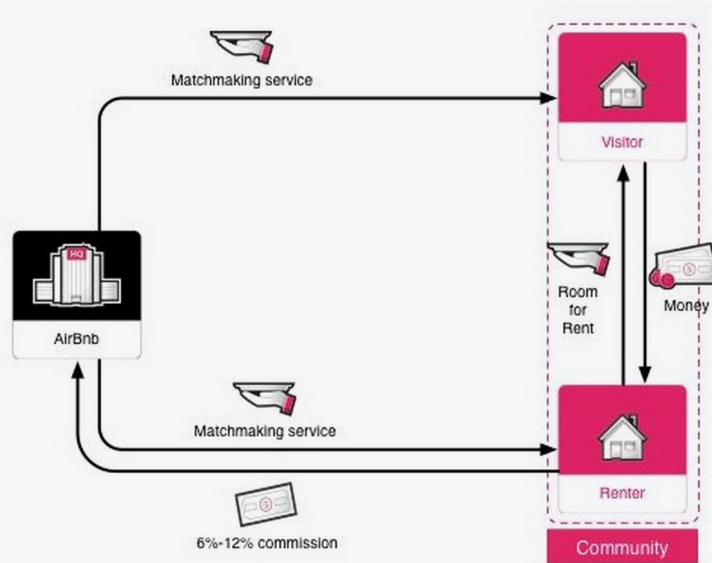
PillPack, a new pharmacy experience, has “backstage” activities that allow them to consistently **CREATE** and **DELIVER** value for customers.





# REVENUE MODELS

In return for *creating and delivering value* to your customers, you **CAPTURE VALUE** back to the business. This is how you *make money* - also known as your **REVENUE MODEL**.



## THE BUSINESS MODEL BEHIND AIRBNB.COM:

a one-sided matchmaking platform

*Depending on the rental price Airbnb takes a **commission up to 12%***

*Other platforms charge **posting fees***

*Source: Board of Innovation*

## CAPTURE

How much will you charge for your product / service?

How often? Who pays?



# POPULAR WAYS TO MAKE MONEY



*One-time  
price or fee*



*Give a product,  
sell the service*



*Sell a product,  
give the service*



*Subscription*



*Membership*



*Commissions*

OR



*Combinations!*



U B E R

*Pay-as-you-go /  
pay-per-use*



*Subsidize part  
of the cost*



*B2B Licensing*



*Some questions to think about for your revenue model:*

How would your solution change for different revenue models?

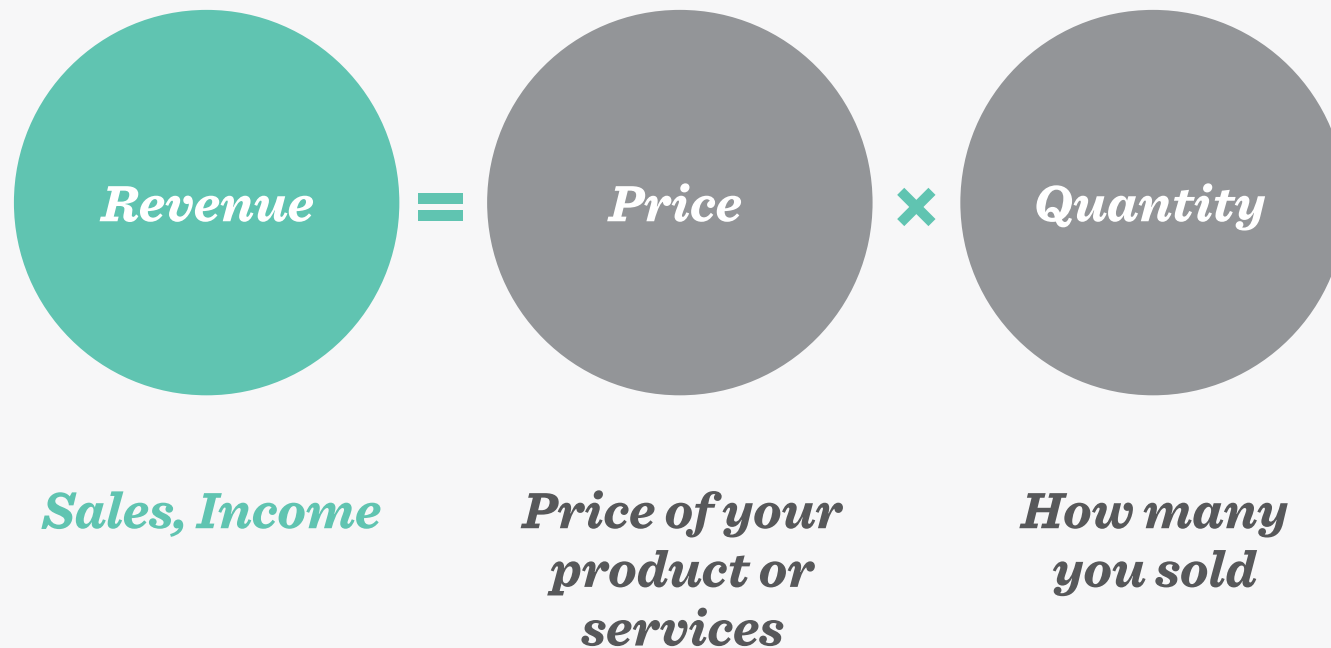
Is your end user the person who will pay?

Are there multiple income / revenue streams?





# REVENUE IS MONEY COMING IN

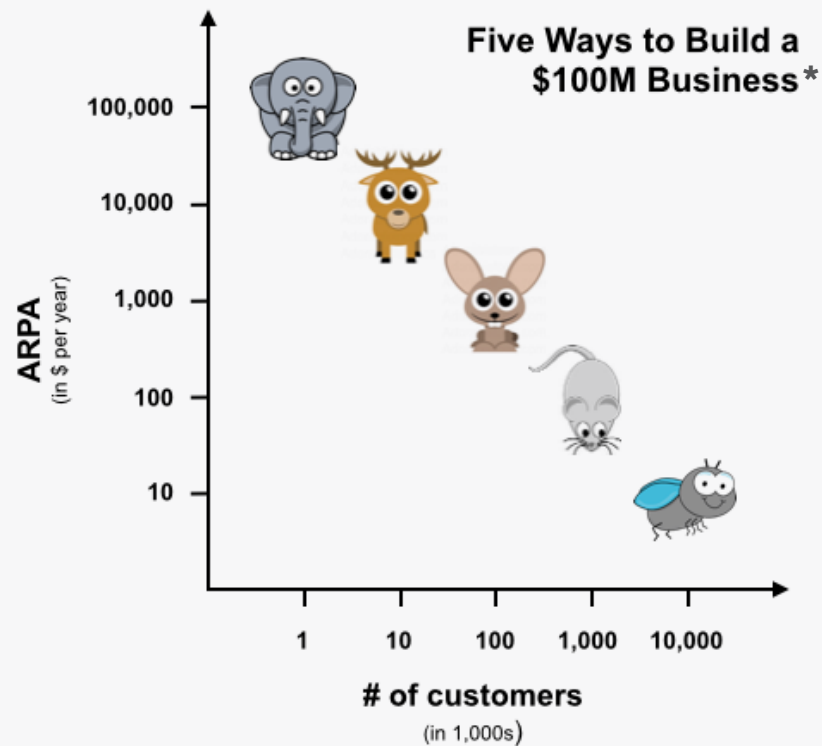


## REVENUE MODEL



**HIGH PRICE,  
LOW QUANTITY**

Your price can be high, but target a small market.



**LOW PRICE,  
HIGH QUANTITY**

Or, you can sell a low-priced product to the masses.

\*<http://christophjanz.blogspot.com/2014/10/five-ways-to-build-100-million-business.html>



***Business model drivers are the assumptions you make that have greatest impact & risk on revenue (sales) and on costs.***



# BUSINESSES HAVE REVENUE DRIVERS AND COST DRIVERS

## REVENUE DRIVERS

- What must happen for money to come in?
- How can you get more customers? Or higher prices?
- What do you need to do to grow your venture?

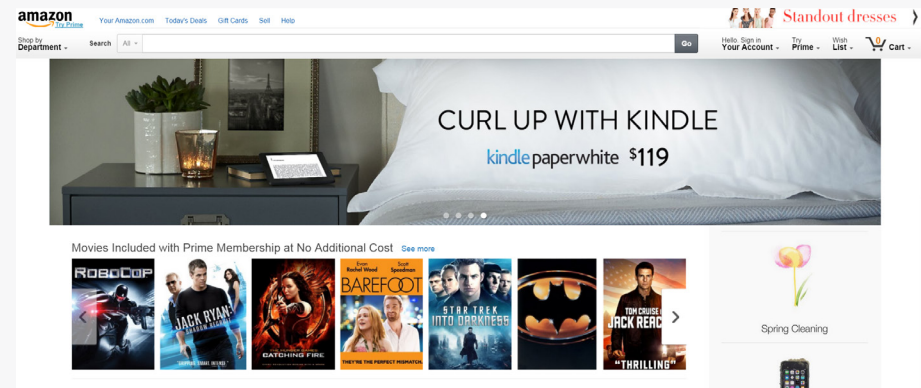
## COST DRIVERS

- Where will you spend the most money? Salaries? Advertising?
- New investments?
- Can you be efficient with overhead and fixed expenses?

*Ask yourself, where does the **greatest impact** come from?  
Where are the **biggest risks**?*



# GUESS THE DRIVERS IN THESE BUSINESSES' MODELS:





# MONEY GOING OUT: WHAT ARE YOUR COSTS?

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What are the **largest costs** in your venture?

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How much does it **cost to create and deliver** your product or service?

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What does it cost you to **get (acquire) each new customer?**

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How much does it cost to **run (operate) the company?**

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# COSTS CAN BE FIXED OR VARIABLE

What are the **largest costs** in your venture?

How much does it **cost to create and deliver** your product or service?

What does it cost you to **get (acquire) each new customer?**

How much does it cost to **run (operate) the company?**



***Fixed costs*** are independent of your output, including things like advertising, rent, machines, salaries - basically running the business.



# COSTS CAN BE FIXED OR VARIABLE

What are the **largest costs** in your venture?

How much does it **cost to create and deliver** your product or service?

What does it cost you to **get (acquire) each new customer?**

How much does it cost to **run (operate) the company?**



***Variable costs*** include anything related to producing one additional product, serving one additional customer.

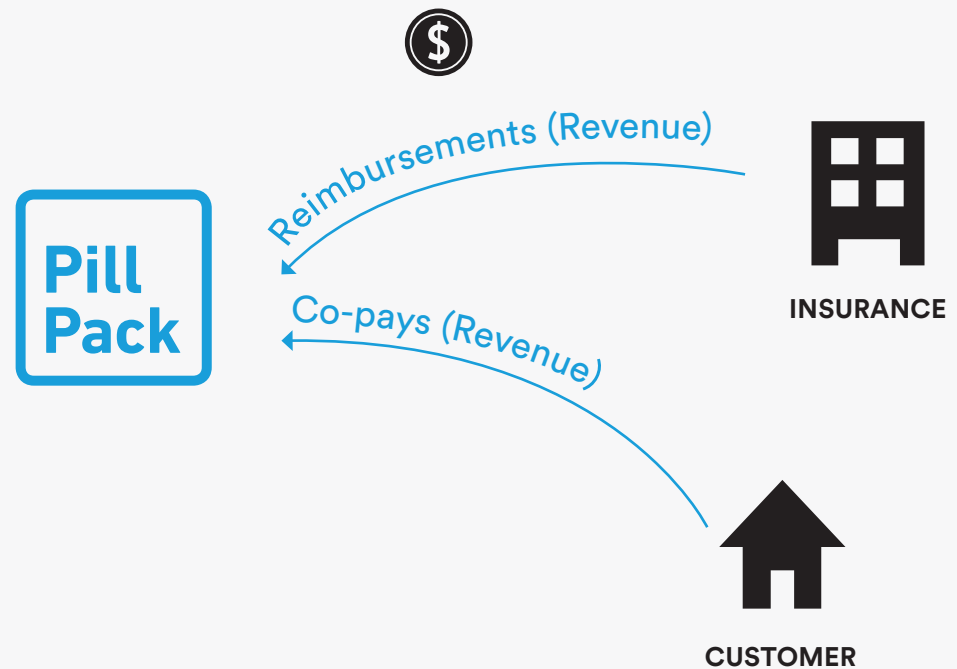
***Fixed costs*** are independent of your output, including things like advertising, rent, machines, salaries - basically running the business.



## EXAMPLE: PILLPACK



*PillPack has two revenue streams:*

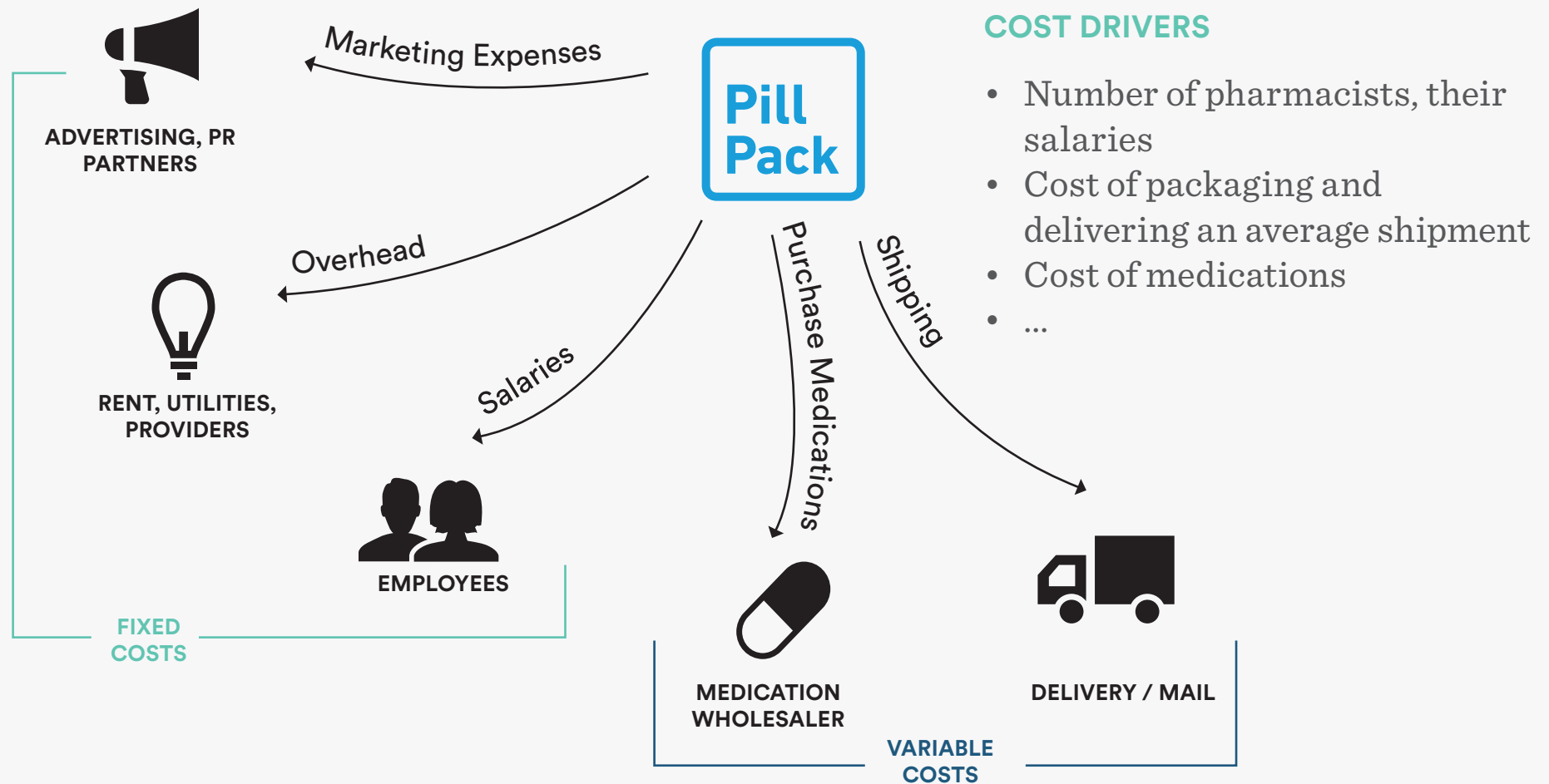


### REVENUE DRIVERS

- Quantity of customers
- Number of prescriptions / medications
- How long a customer stays with PillPack
- ...



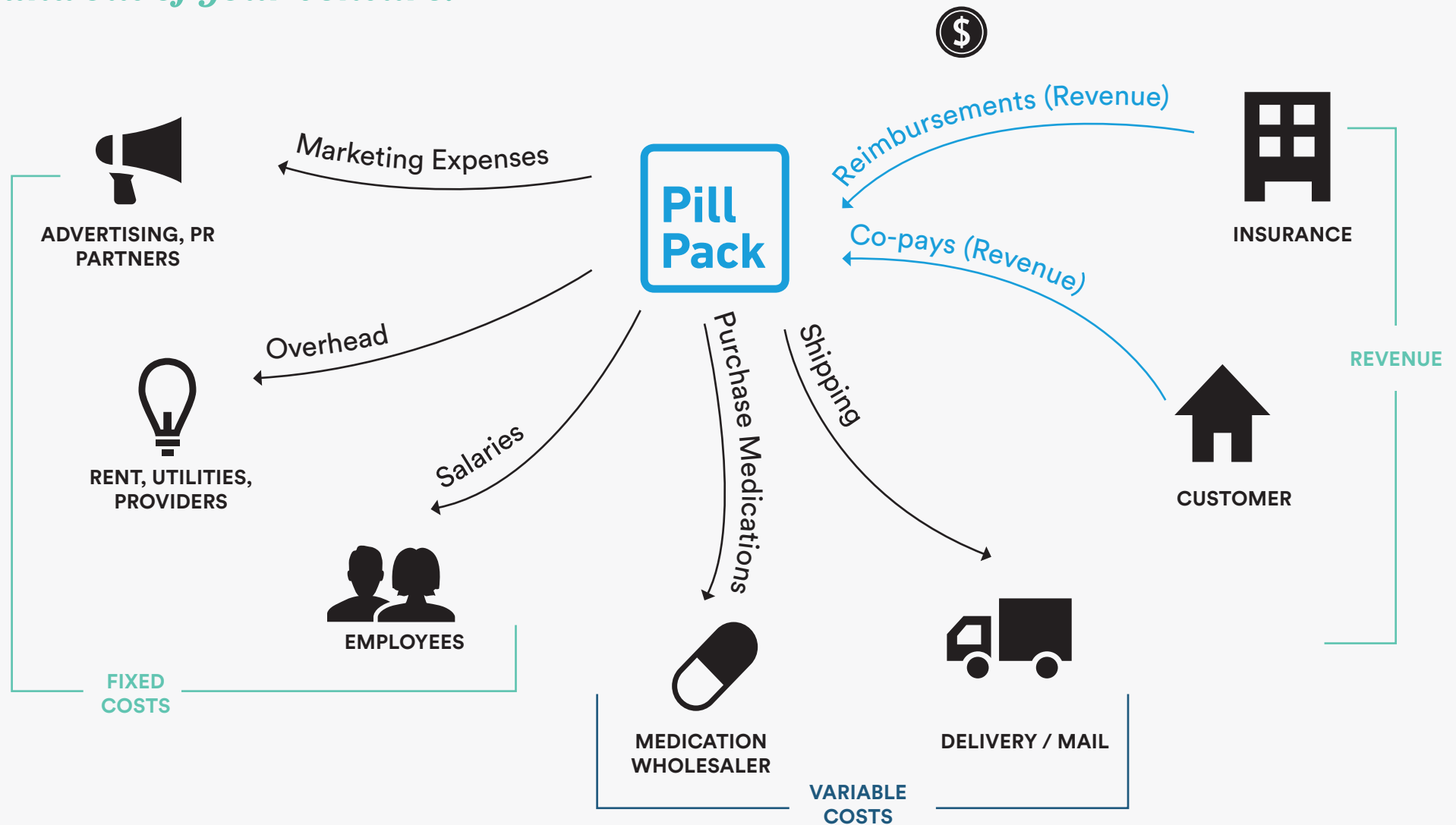
*And there are various costs, or things PillPack must spend money on:*



## EXAMPLE: PILLPACK

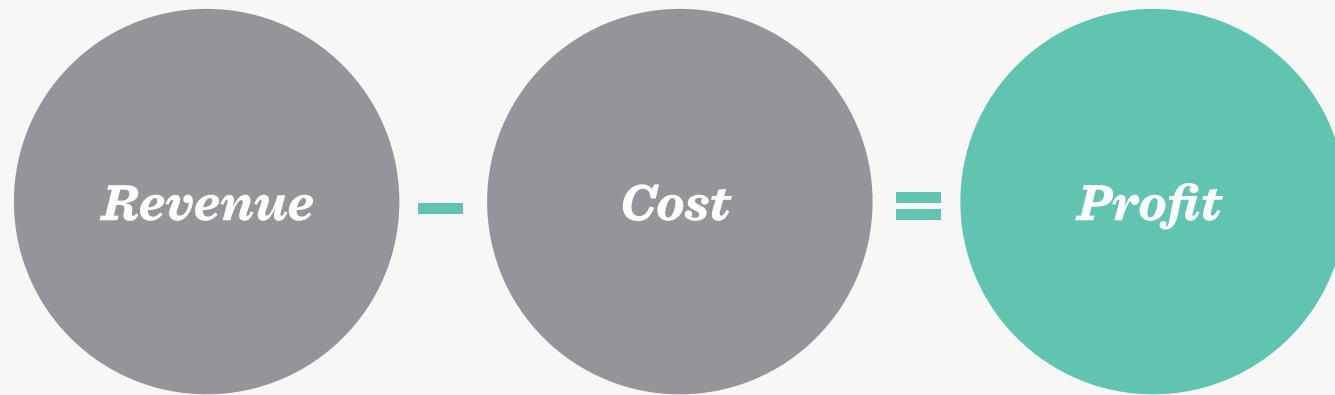


*You need a clear picture of how money flows in and out of your venture.*





*So now you have a sense for money coming in and flowing out - but how much is left?*



***Money coming in***  
What you earned

***Money going out***  
What you spent

***What's left***  
Sometimes expressed  
as a % of revenue /  
sales or as a \$ amount



# PROFIT HAPPENS DIFFERENTLY FOR DIFFERENT COMPANIES

## EXAMPLES:



### *Coconut water* **CONSUMER PRODUCT**

Revenue covers more  
than cost of making  
product, leaves  
margin



### *Facebook* **SOFTWARE**

No revenue early  
on, high fixed costs



# LET'S DO!

Now that you've learned more, take a shot at answering these questions:

How will you create value for people? / How will you deliver a  
valuable experience? / How will you make money (capture value)?  
/ What are your revenues? / What are your costs? / What is your  
profit? / What key activities and systems do you need in place?

**FOR QUESTIONS YOU STILL NEED  
TO ANSWER OR ASSUMPTIONS YOU  
NEED TO PROVE,**

- What will you make / prototype?
- What evidence can you get?





# WHAT'S NEXT?

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## DO

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### SKETCH YOUR BUSINESS MODEL

*What are the most basic elements and assumptions of your business model?*

### DELIVERING VALUE

*How will your business deliver a valuable experience to your customers?*

### VENTURE CANVAS

*How do the pieces of your venture work together to create, deliver and capture value?*

### P&L / INCOME STATEMENT

*How much money are you earning, spending and keeping in running your venture?*

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## DO

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### CASH FLOW MAP

*What are the inflows and outflows of money in your venture?*

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## LEARN

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### FINANCIAL STATEMENTS

UNDERSTANDING YOUR VENTURE'S FINANCIAL SITUATION

*How do you keep track of your venture's money?*

### DESIGNING YOUR ORGANIZATION

BUILDING THE RIGHT CULTURE AND TEAM

*How will you build your culture and team with purpose?*

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## DO

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### PROTOTYPE STARTER

*How could you prototype various aspects of your business model?*

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## Other Resources

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### 📖 ARTICLE

#### PROFILES OF 50 MOST INNOVATIVE COMPANIES' BUSINESS MODELS

FAST COMPANY

*Snapshots of business models that drive innovative companies*

### 📖 CASE STUDY

#### KEURIG CREATED THE PERFECT BUSINESS MODEL FOR HARDWARE STARTUPS

BY BEN EINSTEIN (FOUNDER AT BOLT)

*A study of Keurig's business model with implications*